

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 L-03 PA-02 IGA-02 AGRE-00 DOE-11 SOE-02
/130 W

-----108656 211835Z /41

R 211750Z FEB 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 6050
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

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DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING FEB. 20)

REF.: BONN 1777, 2773 AND 2825

1. FOREIGN EXCHANGE MARKET:
THE DOLLAR CAME UNDER HEAVY PRESSURE ON GERMAN FOREIGN
MARKETS DURING THE PAST WEEK RESULTING IN A NEAR 4
PFENNIG DECLINE IN THE DOLLAR'S VALUE RELATIVE TO THE
DEUTSCHEMARK DURING THE PERIOD UNDER REVIEW. ACCORDING
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TO THE PRESS, THE BUNDESBANK HAS NOW ALSO ENTERED THE
FORWARD MARKET. \$40 MILLION WAS REPORTEDLY PURCHASED
IN THE THREE MONTH FORWARD MARKET ON MONDAY, FEB. 20.
FOR THE PERIOD FEB. 14-21, FRANKFURT SPOT AND FORWARD
DOLLAR RATES DEVELOPED AS FOLLOWS:

SPOT DOLLARS	FORWARD DOLLARS
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(IN DM PER \$1.--) (IN PCT. PER ANNUM)

OPENING FIXING CLOSING ONE-MONTH THREE-MONTH

FEB. 14	2.0860	2.0812	2.0837	-3.6	-4.1
15	2.0820	2.0845	2.0855	-3.3	-3.9
16	2.0740	2.0774	2.0670	-4.0	-4.4
17	2.0575	2.0585	2.0610	-3.8	-4.4
20	2.0425	2.0405	2.0340	-3.7	-4.2
21	2.0370	2.0421	N.A.	N.A.	N.A.

2. GERMAN NEWSPAPER SUGGESTS OPEC SWITCH TO A NON-DOLLAR OIL PRICE

IN THE FEB. 20 ISSUE OF ITS ECONOMIC SUPPLEMENT "BLICK DURCH DIE WIRTSCHAFT", THE INFLUENTIAL FRANKFURTER ALLGEMEINE REVIEWED U.S. BALANCE OF PAYMENTS POLICY, CONCLUDED THAT THE U.S. HAS NO PLANS TO REDUCE ITS CURRENT ACCOUNT DEFICIT AND CALLED ON THE OPEC COUNTRIES TO CEASE BILLING OIL PRICES IN TERMS OF DOLLARS. THE PAPER ARGUED THAT THUS AT LEAST FURTHER DOLLAR DEVALUATIONS WOULD RESULT IN AN INCREASE OF THE OIL PRICE TO THE U.S. CONSUMER AND THUS CREATE THE INDISPENSABLE PRECONDITION FOR A REDUCTION IN OIL IMPORTS AND RELIEF FOR THE U.S. BALANCE OF TRADE.

3. DM 188.7 BILLION FEDERAL BUDGET FOR 1978 READY TO BE SIGNED INTO LAW:

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THE FEDERAL BUDGET FOR 1978 APPROVED BY THE BUNDESTAG ON JANUARY 27 HAS NOW BEEN PASSED BY THE BUNDESRAT AND IS READY TO BE SIGNED INTO LAW. THE BUDGET PROVIDES FOR EXPENDITURES OF DM 188.7 BILLION AND AUT HORIZES NET BORROWING OF DM 30.8 BILLION. DETAILS WERE REPORTED IN BONN 1777. THE SUPPLEMENTARY BUDGET ANNOUNCED BY FORMER FINANCE MINISTER APEL, WHICH IS ESTIMATED TO RAISE BORROWING REQUIREMENTS THIS YEAR TO SOME DM 32 - 33 BILLION, HAS NOT BEEN FIRMED-UP AS YET.

4. MATTHOEFER COOL TO LARGE BUDGET DEFICITS:

IN AN INTERVIEW WITH THE MUNICH SUEDEDEUTSCHE ZEITUNG PUBLISHED ON FEBRUARY 17, NEWLY-APPOINTED FINANCE MINISTER HANS MATTHOEFER SAID THAT HE WAS BASICALLY

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/130 W

-----108826 211837Z /41

R 211818Z FEB 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 6051
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
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SCEPTICAL ABOUT DEFICIT SPENDING. THE SUEDEDEUTSCHE
ZEITUNG REPORTS MATTHOEFER AS SAYING IT WILL BE HIS
JOB TO SEE THAT THE GOVERNMENT CONTRACTS "AS FEW DEBTS
AS POSSIBLE".

5. MONEY MARKET:
DURING THE REPORTING PERIOD FRANKFURT INTERBANK
LENDING RATES DEVELOPED AS FOLLOWS:

	CALL MONEY	ONE-MONTH	THREE-MONTH
FEB. 14	3.20-3.25	3.25	3.45
15	3.00-3.15	3.25	3.40

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16	2.95-3.05	3.25	3.40
17	2.95-3.10	3.25	3.40
20	3.20-3.40	3.25	3.40

6. CENTRAL BANK MONEY

IN JANUARY SEASONALLY ADJUSTED CENTRAL BANK MONEY (CBM) INCREASED STRONGLY BY DM 2.4 BILLION TO DM 134.2 BILLION. THIS INCREASE IS PROBABLY THE HIGHEST MONTHLY INCREASE IN CBM EVER RECORDED. IT FOLLOWED INCREASES OF DM 0.6 BILLION AND DM 1.8 BILLION, RESPECTIVELY, IN DECEMBER AND NOVEMBER. IF IN THE REMAINING MONTHS OF 1978 CBM WOULD INCREASE AT THE SAME RATE OF INCREASE REACHED IN JANUARY THIS WOULD MEAN AN 18.0 INCREASE OF CBM FOR 1978(1978 AVERAGE OVER 1977 AVERAGE).

7. DM 700 MILLION FOR VENEZUELA:
THE REPUBLIC OF VENEZUELA IS CURRENTLY NEGOTIATING WITH AN INTERNATIONAL BANKING CONSORTIUM LED BY THE WESTDEUTSCHE LANDESBANK FOR BORROWINGS OF DM 700 MILLION. THE BORROWED AMOUNT IS INTENDED TO BE RAISED BY A CREDIT OF DM 500 MILLION AND THE ISSUE OF FOREIGN DM BONDS OF DM 200 MILLION. CONDITIONS ARE EXPECTED TO BE ESTABLISHED ON MARCH 6.

8. BOND MARKET:
THE TWO TRANCHES OF THE DM 1.3 BILLION FEDERAL LOAN (SEE BONN 2825) WERE SUCCESSFULLY PLACED. ON FEBRUARY 17 THEY WERE INTRODUCED IN OFFICIAL LISTING ON STOCK EXCHANGES AT PRICES OF 100.75 AND 101.00, RESPECTIVELY, AS COMPARED WITH THE ISSUE PRICE OF 99.75 FOR BOTH TRANCHES. IN VIEW OF THE SUCCESSFUL PLACING OF THIS LOAN, PRICES OF DOMESTIC BONDS INCREASED FURTHER. ACCORDING TO THE PRESS AVERAGE CURRENT YIELDS OF OUT-UNCLASSIFIED

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/130 W

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R 211818Z FEB 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 6052
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
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STANDING DOMESTIC BONDS BROKEN DOWN BY REMAINING
MATURITY WERE AS FOLLOWS:

REMAINING
MATURITY
(YEARS) 1 3 5 7 9 10
FEB. 17 3.80 4.55 5.05 5.45 5.75 5.85
FEB. 10 3.85 4.75 5.10 5.50 5.80 5.95

IN JANUARY, ACCORDING TO THE BUNDESBANK, THE AVERAGE
YIELD TO MATURITY OF OUTSTANDING DOMESTIC BONDS DECLINED
TO 5.8 PERCENT, I.E. RETURNED TO ITS POST-WAR LOW REACHED
IN 1959. YIELDS OF FEDERAL BONDS DECLINED EVEN MORE
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FALLING TO 5.4 PERCENT OR TO A LEVEL SLIGHTLY BELOW THE
1959 POST-WAR LOW. THE NEXT DOMESTIC LOAN WILL BE A
DM 400 MILLION LOAN OF THE LASTENAUSGLEICHSBANK
(EQUALISATION OF BURDENS BANK). THE COUPON IS EXPECTED TO
BE 5 1/2 PERCENT, THE MATURITY PROBABLY 10 YEARS.

ON THE MARKET FOR FOREIGN DM BONDS THE PRIVATE PLACING
OF BONDS OF DM 40 MILLION OF FRENCH GROUPEMENT DE
L'INDUSTRIE SIDERURGIQUE WAS MADE AT A COUPON OF
6 PERCENT, A MATURITY OF 5 YEARS WITH REPAYMENT TO
BEGIN AFTER 3 YEARS AND AN ISSUE PRICE OF 100.

9. PRELIMINARY DECEMBER 1977 ORDER VOLUME DATA AND
REVISED EARLIER MONTHS' FIGURES IN THIS SERIES WERE
REPORTED IN BONN 2773.
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